

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name KALAMAZOO COUNTY ROAD COMMISS	County KALAMAZOO
Fiscal Year End 12/31/06	Opinion Date 03/09/07	Date Audit Report Submitted to State 05/18/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

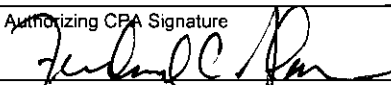
YES NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	NO NECESSARY COMMENTS OR RECOMMENDATIONS	
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) GARDNER, PROVENZANO, SCHAUMAN & THOMAS, P.C.		Telephone Number 989-790-3900	
Street Address 4855 STATE STREET		City SAGINAW	State MI
		Zip 48603	
Authorizing CPA Signature 		Printed Name FREDERICK C. GARDNER	License Number 9577

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# Gardner | Provenzano Schauman & Thomas

**CERTIFIED PUBLIC ACCOUNTANTS**

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

## INDEPENDENT AUDITOR'S REPORT

March 9, 2007

Members of the Board  
of County Road Commissioners  
of Kalamazoo County  
Kalamazoo, Michigan

We have audited the accompanying financial statements of the Kalamazoo County Road Commission, a component unit of Kalamazoo County, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Kalamazoo County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kalamazoo County Road Commission as of December 31, 2006 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Members of the Board  
of County Road Commissioners  
of Kalamazoo County  
Page Two

The management's discussion and analysis and budgetary comparison information are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The additional supplemental information is presented for purposes of additional analysis and is not a required part of financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements of Kalamazoo County Road Commission and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 9, 2007, on our consideration of the Kalamazoo County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

*Gardna, Provengaro, Schauman & Thomas*

Certified Public Accountants

# KALAMAZOO COUNTY ROAD COMMISSION MANAGEMENT'S DISCUSSION & ANALYSIS

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## **Introduction**

The Kalamazoo County Road Commission (KCRC) is a special purpose government engaged in a single government program of road and bridge maintenance, preservation and construction for the County of Kalamazoo, Michigan. The Kalamazoo County Road Commission was established by a vote of the citizens of Kalamazoo County in 1909.

The following financial statements are presented in accordance with prescribed methods of accounting. The financial statements related to the Governmental Fund are prepared in modified accrual format, commonly referred to as governmental fund level accounting. The full accrual method of accounting focuses on the entity as a whole (KCRC net assets) and is referred to as government-wide level accounting. The significant differences between the governmental fund statements and the government-wide statements relate to capital assets (buildings and equipment) and the infrastructure (roads, bridges and signals). Capital assets and infrastructure are not recognized as assets and capitalized at the governmental fund level.

With respect to the statements on financial position and activities, the fund level financial statements and the government-wide financial statements have been combined and are presented on the same page.

The audited financial activities of the KCRC are presented herein. These statements include the following:

- Statement of Net Assets and Governmental Fund Balance Sheet,
- Reconciliation of Governmental Fund Balance to Net Assets of Governmental Activities,
- Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund balance, and
- Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities for the Year Ended December 31, 2006.

## **Condensed Financial Statements**

Following are condensed government-wide financial statements for the KCRC. The reports include the current and prior year balances for comparison.

# KALAMAZOO COUNTY ROAD COMMISSION MANAGEMENT'S DISCUSSION & ANALYSIS

## Condensed Statement of Net Assets

	2006	2005
<b>Assets</b>		
General fund	\$ 5,948,301	\$ 6,562,799
Capital assets	105,761,048	102,739,810
Total Assets	<u>\$ 111,709,349</u>	<u>\$ 109,302,609</u>
<b>Liabilities</b>		
General fund liabilities	\$ 785,163	\$ 997,460
Liabilities associated with long-term debt	-	151,112
Total Liabilities	<u>\$ 785,163</u>	<u>\$ 1,148,572</u>
<b>Net Assets</b>		
General fund balance/net assets	\$ 5,163,138	\$ 5,565,339
Invested in capital assets - net of related debt	105,761,048	102,588,698
Total Net Assets	<u>\$ 110,924,186</u>	<u>\$ 108,154,037</u>

## Condensed Statement of Activities

<b>Revenue</b>		
Intergovernmental	\$ 17,763,766	\$ 17,041,904
Other contributions and service charges	182,598	220,674
Other	2,651,471	2,719,872
Total Revenue	<u>20,597,835</u>	<u>19,982,450</u>
<b>Expenses</b>		
Primary maintenance	4,612,147	4,321,611
Local maintenance	3,820,820	4,331,396
Depreciation	8,511,563	8,358,351
Administrative	877,344	887,872
Interest	5,812	17,436
Total Expenses	<u>17,827,686</u>	<u>17,916,666</u>
Change In Net Assets	<u>\$ 2,770,149</u>	<u>\$ 2,065,784</u>

## **KALAMAZOO COUNTY ROAD COMMISSION MANAGEMENT'S DISCUSSION & ANALYSIS**

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### **Comments on the Condensed Financial Statements**

As the condensed financial statements reflect, the change in net assets for the year ending December 31, 2006 was \$2,770,149. 2006 saw continued investment in substantial and important primary road improvement projects such as the 6<sup>th</sup> Street from M-43 (West Main Street) to H Avenue project, the 26<sup>th</sup> Street from East Main Street to H Avenue improvement project, and the Portage Road replacement bridge over Gourdneck Creek. In addition, the S. Sprinkle Road project at Romence Road/Bishop Avenue was an important intersection safety project. Of course, the amount of expenditures for capital assets is offset by the current year depreciation.

The ending General Fund net of assets of \$5,163,138, while down from the 2005 balance, includes funding committed for projects included in the capital improvement plan for the next construction season, as well as an attempt to build a reserve fund balance to provide for potential increases in expenses.

### **Budget**

The KCRC's budget is prepared in accordance with state law using the modified accrual accounting basis. This is the same accounting basis used for the governmental fund.

### **Original Budget Versus Amended Budget**

The 2006 original budget was adopted in December 2005. The budget is reviewed periodically, amended as information is available or management's plans change.

The revenue and expenditure categories were adjusted as necessary during the year without significant changes in any of the account classifications.

**KALAMAZOO COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION & ANALYSIS**

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**Amended Budget Versus Actual**

The actual revenue exceeded the expectation of the amended budget by \$80,303, or .4%. All except two of the revenue accounts had a favorable variance.

On the expenditure side, actual expenses were less than budgeted by \$495,594, or 2.7%.

Major items associated with the favorable variance are in the budgeted preservation and maintenance expenditures. There were significant cost reductions for budgeted routine maintenance activities due to a relatively mild winter season. Other significant items impacting the favorable reduction in expense were:

- Liability insurance refund for closed periods of \$312,577,
- Favorable pricing affecting the competitive bids for equipment of \$128,900,
- Equipment items budgeted but not purchased in 2006 of \$125,000.

**Capital Assets and Long Term Debt**

The KCRC has capital assets including infrastructure (roads, bridges and signals) valued, for full accrual accounting purposes, net of accumulated depreciation of \$105,761,048, a year to year increase of 2.95% as summarized below.

	<u>2006</u>	<u>2005</u>
Land and improvements	\$ 14,433,268	\$ 11,654,029
Buildings and improvements	3,567,546	3,538,946
Road equipment	6,247,598	6,315,383
Other equipment	1,187,966	1,197,838
Infrastructure and improvements	<u>184,041,525</u>	<u>176,158,883</u>
Total Capital Assets	209,477,903	198,865,079
Accumulated Depreciation	<u>(103,716,855)</u>	<u>(96,125,269)</u>
Net Capital Assets	<u>\$ 105,761,048</u>	<u>\$ 102,739,810</u>

Additional information regarding capital assets is located in Note 3 of the financial statements.

Additional information regarding long-term debt is included in Note 4 of the financial statements.



**KALAMAZOO COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION & ANALYSIS**

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**Other, Including Economic Factors**

Management is not aware of any currently known facts, decisions, or conditions expected to have a significant effect on next year and beyond on the KCRC financial condition.

KALAMAZOO COUNTY ROAD COMMISSION  
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2006

	General Fund	Adjustments	Statement of Net Assets
<b>ASSETS</b>			
Cash	\$ 2,028,023	\$ -	\$ 2,028,023
Accounts Receivable			
State Transportation Department	2,039,817	-	2,039,817
Due on County Road Agreements	249,069	-	249,069
Other	78,194	-	78,194
Inventories			
Equipment materials and parts	63,744	-	63,744
Road materials	1,076,538	-	1,076,538
Deferred expense	158,092	-	158,092
Prepaid expense	134,850	-	134,850
Advance	119,974	-	119,974
Capital Assets			
Land and land improvements	-	14,433,268	14,433,268
Other capital assets, net of accumulated depreciation	-	91,327,780	91,327,780
Total Assets	<u>\$ 5,948,301</u>	<u>\$ 105,761,048</u>	<u>\$ 111,709,349</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 394,926	\$ -	\$ 394,926
Accrued liabilities	122,511	-	122,511
Advances	104,974	-	104,974
Deferred revenue	74,841	-	74,841
Escrow agreement	1,600	-	1,600
Kalamazoo Area Transportation Study	86,311	-	86,311
Total Liabilities	<u>785,163</u>	<u>-</u>	<u>785,163</u>
<b>FUND BALANCE/NET ASSETS</b>			
Fund Balances:			
Reserved for inventories and prepaids	1,275,132	(1,275,132)	-
Unreserved			
Undesignated	3,888,006	(3,888,006)	-
Total Fund Balance	5,163,138	(5,163,138)	-
Total Liabilities and Fund Balance	<u>\$ 5,948,301</u>		
Net Assets:			
Invested in capital assets, net of related debt		105,761,048	105,761,048
Restricted for primary		3,135,663	3,135,663
Unrestricted		2,027,475	2,027,475
Total Net Assets		<u>\$ 110,924,186</u>	<u>\$ 110,924,186</u>

See accompanying notes to the basic financial statements.

KALAMAZOO COUNTY ROAD COMMISSION  
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2006

Total governmental fund balance	\$ 5,163,138
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	105,761,048
Net Assets of Governmental Activities	<u>\$ 110,924,186</u>

See accompanying notes to the basic financial statements.

KALAMAZOO COUNTY ROAD COMMISSION  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2006

	General <u>Fund</u>	<u>Adjustments</u>	Statement of <u>Activities</u>
Revenue			
Transportation fund	\$ 13,106,447	\$ -	\$ 13,106,447
Economic development fund	(13,800)	-	(13,800)
Federal grants	2,035,393	-	2,035,393
Critical bridge	607,985	-	607,985
Township and City contributions	1,485,927	-	1,485,927
Other contributions and service charges	182,598	-	182,598
Other revenues	541,814	2,651,471	3,193,285
Total Revenue	<u>17,946,364</u>	<u>2,651,471</u>	<u>20,597,835</u>
Expenditures			
Primary preservation	5,515,646	(5,515,646)	-
Primary maintenance	4,953,234	(341,087)	4,612,147
Local preservation	2,533,695	(2,533,695)	-
Local maintenance	4,099,890	(279,070)	3,820,820
Administrative	958,168	(80,824)	877,344
Net equipment expense	62,515	(62,515)	-
Net capital outlay			
Capital outlay	831,991	(831,991)	-
Depreciation	(763,498)	763,498	-
Depreciation	-	8,511,563	8,511,563
Interest	11,624	(5,812)	5,812
Total Expenditures	<u>18,203,265</u>	<u>(375,579)</u>	<u>17,827,686</u>
Excess of Revenue Over (Under) Expenditures	(256,901)	256,901	-
Other Financing Sources (Uses)			
Payments on land contracts	(145,300)	145,300	-
Total Other Financing Sources (Uses)	(145,300)	145,300	-
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	(402,201)	402,201	-
Change in Net Assets	-	2,770,149	2,770,149
Fund Balance/Net Assets - Beginning of Year	5,565,339	102,588,698	108,154,037
Fund Balance/Net Assets - End of Year	<u>\$ 5,163,138</u>	<u>\$ 105,761,048</u>	<u>\$ 110,924,186</u>

See accompanying notes to the basic financial statements.

KALAMAZOO COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006

Net change in fund balance	\$ (402,201)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of these assets is depreciated over their estimated useful lives.

Development projects transferred in	2,651,471
Expenditures for capital assets	8,969,951
Current year depreciation	(8,511,563)

Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities	(88,621)
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Governmental fund reports proceeds from borrowing as other financing sources and payments on borrowing as other financing uses. Long-term debt principal increases/decreases are not included in the statement of activities.

Payments on land contracts	145,300
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In the Statement of Activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.

Interest payable on purchase agreements	5,812
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Change in Net Assets of Governmental Activities	\$ 2,770,149
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See accompanying notes to the basic financial statements.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

Kalamazoo County Road Commission's financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with GASB pronouncements. The more significant accounting policies established in GAAP and used by the commission are discussed below.

In June 1999, the GASB unanimously approved Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the commission's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for the commission's activities, including infrastructure (roads, bridges, etc.).

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

A. Reporting Entity

The commission is governed by a three-member board of county road commissioners appointed by the Kalamazoo County Board of Commissioners. The commission is a component unit of the Kalamazoo County and its financial statements are an integral part of the comprehensive annual financial report of the Kalamazoo County.

Based upon GASB Statement 14, which establishes criteria for determining the reporting entity, these financial statements present the Kalamazoo County Road Commission, a discretely presented component unit of Kalamazoo County, and include the commission's general operations fund.

B. Basic Financial Statements – Government-Wide Statements

The statement of net assets and the statement of activities display information about the commission as a whole. The purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all commission activity is considered governmental.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach is different from the manner in which the governmental fund financial statements are prepared. Therefore, a reconciliation is included to identify the relationship between the government-wide statements and the statements for the governmental fund.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements – Government-Wide Statements (continued)

The government-wide statement of activities presents a comparison between program expenses and program revenues. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program expenses and revenues identifies the extent to which each program is self-financing or draws from the resources of the commission.

This government-wide approach is focused more on the sustainability of the commission as an entity and the change in the commission's net assets from the current year's activities.

C. Basic Financial Statement – Fund Financial Statements

The accounts of the commission are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The commission's operations are accounted for in one fund, the general operations fund.

Fund financial statements generally report detailed information about the governmental entity. The focus of the governmental financial statements is on major funds rather than reporting all funds by type. The commission has only one major fund and no non-major funds.



KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

C. Basic Financial Statement – Fund Financial Statements (continued)

The governmental fund is accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. According to this basis, revenues are recognized when they become measurable and available. Available is defined as being received within two months of year end. Expenditures are recognized in the period in which the fund liability is incurred, if measurable.

D. Cash and Cash Equivalents

The commission's cash and cash equivalents are considered to be demand deposits and short-term investments with a maturity date of three months or less when acquired.

E. Inventories and Prepaid Items

Inventories are valued at the average unit cost method. Inventory items are charged to road construction, maintenance, equipment repairs and operations as they are used. Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid items.

F. Capital Assets and Depreciation

Capital assets purchased or acquired are reported at historic cost. Contributed assets are reported at fair market value when received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is computed on the sum-of-the-year's-digits methods for

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

F. Capital Assets and Depreciation (continued)

road equipment and straight-line method for all other capital assets over the following estimated useful lives:

	<u>Years</u>
Buildings	25 – 50
Road equipment	5 – 8
Other equipment	4 – 20
Infrastructure	5 – 50

GASB 34 requires the commission to report and depreciate infrastructure assets in its government-wide statements. Infrastructure assets include roads, bridges, traffic signals, etc.

G. Budgets and Budgetary Accounting

Budgetary procedures require the commissioners to approve a budget for the general operations of the fund. Pursuant to this requirement, the commission follows these procedures:

- The director submits a proposed operating budget for the fiscal year to the board of county road commissioners before the beginning of the fiscal year. The budget includes proposed expenditures and the means of providing them.
- A public hearing is held to obtain comments.
- Prior to the beginning of the year, the budget and appropriations are legally adopted by the board of county road commissioners.
- Comparison of budget to actual activity is used as a management control device throughout the year.
- Budgets are prepared using the modified accrual basis of accounting.
- The budgetary information presented has been amended throughout the year by an official action of the board.

Law requires budget amendments as needed to prevent actual expenditures from exceeding those provided in the budget.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 2--Cash, Cash Equivalents and Investments

The county road commission is legally authorized to deposit and invest in the following:

1. In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
2. In certificates of deposit, saving accounts, deposit accounts, or depository receipts of a bank which is a member of the FDIC, a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
3. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the purchase date.
4. In United States government or federal agency obligation repurchase agreements.
5. In banker's acceptance of United States banks.
6. In obligations of the state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

State statutes require that certificates of deposit, savings accounts, deposit accounts and depository receipts be made with banks having a place of business in the State of Michigan.

At year-end, the carrying amount of the commission's deposits was \$2,028,023 and the bank balance and county balance was \$2,703,801. Of the bank balance and county balance, \$100,000 was covered by federal depository insurance and \$2,603,801 was uninsured and uncollateralized.

The commission's deposits are categorized below according to level of credit risk:

- Category 1 represents the county road commission's insured or collateralized deposits with securities held by the commission or by its agent in the commission's name.
- Category 2 represents the county road commission's collateralized deposits with securities held by the pledging financial institution's trust department or agent in the county road commission's name.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 2--Cash, Cash Equivalents and Investments (continued)

- Category 3 represents the county road commission's uncollateralized deposits including any bank balances that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the county road commission's name.

	Category			Bank	Carrying
	1	2	3	Balance	Amount
Demand deposits	\$ -	\$ -	\$ 65,023	\$ 741,001	\$ 65,023
Funds held by County	-	-	1,962,800	1,962,800	1,962,800
Cash on hand	-	-	200	-	200
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,028,023</u>	<u>\$ 2,703,801</u>	<u>\$ 2,028,023</u>

It is the policy of the Commission to deposit excess monies with the Kalamazoo Treasurer; investments are made at his/her discretion.

NOTE 3--Capital Assets and Depreciation

Changes in capital assets for the year are as follows:

	Balance 12-31-2005	Additions	Retirements	Balance 12-31-2006
<b>Capital Assets Not Being Depreciated</b>				
Land and improvements	\$ 1,198,399	\$ -	\$ -	\$ 1,198,399
Land and improvements, infrastructure	10,455,630	2,779,239	-	13,234,869
Total Land and improvements	<u>11,654,029</u>	<u>2,779,239</u>	<u>-</u>	<u>14,433,268</u>
<b>Other Capital Assets</b>				
Buildings and improvements	3,538,946	28,600	-	3,567,546
Road equipment	6,315,383	809,631	(877,416)	6,247,598
Other equipment	1,197,838	82,380	(92,252)	1,187,966
Infrastructure and improvements	176,158,883	7,921,572	(38,930)	184,041,525
Total Other Capital Assets	<u>187,211,050</u>	<u>8,842,183</u>	<u>(1,008,598)</u>	<u>195,044,635</u>
Total Capital Assets	<u>198,865,079</u>	<u>11,621,422</u>	<u>(1,008,598)</u>	<u>209,477,903</u>
<b>Accumulated Depreciation</b>				
Buildings and improvements	(1,784,982)	(78,648)	-	(1,863,630)
Road equipment	(4,865,274)	(644,279)	789,917	(4,719,636)
Other equipment	(1,084,213)	(40,570)	91,130	(1,033,653)
Infrastructure and improvements	(88,390,800)	(7,748,066)	38,930	(96,099,936)
Total Accumulated Depreciation	<u>(96,125,269)</u>	<u>(8,511,563)</u>	<u>919,977</u>	<u>(103,716,855)</u>
Total Net Capital Assets	<u>\$ 102,739,810</u>	<u>\$ 3,109,859</u>	<u>\$ (88,621)</u>	<u>\$ 105,761,048</u>

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 4--Long-Term Liabilities

Following is a summary of long term liabilities for the year ended December 31, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental Activities:				
Notes Payable:				
Land contracts	\$ 145,300	\$ -	\$ 145,300	\$ -
Total Long-Term Debt	<u>\$ 145,300</u>	<u>\$ -</u>	<u>\$ 145,300</u>	<u>\$ -</u>

NOTE 5--Defined Benefit Pension Plan

Plan Description

The commission's defined benefit pension plan provides retirement, disability and death benefits to plan members and beneficiaries. The commission participates in the Kalamazoo County Employees Retirement System, a Public Employee Retirement System which is an agent multiple-employer plan administered by the Kalamazoo County Employees Retirement System. The Kalamazoo County Board of Commissioners establishes and amends the benefit provisions of the participants in the plan. The Kalamazoo County Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the Kalamazoo County Employees Retirement System, 201 W. Kalamazoo Avenue, Kalamazoo, Michigan 49007 or by calling (269) 384-8111.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 5--Defined Benefit Pension Plan (continued)

Funding Policy

The commission is required to contribute at an actuarially determined rate; the current rate is 0.00% of annual covered payroll. Employees are currently not required to contribute to the plan. The contribution requirements are established by Kalamazoo County Employees Retirement System based on an actuarial valuation. The contribution requirements of plan members, if any, are established and may be amended by the commission depending on the plan's contribution program.

Annual Pension Cost

For the year ended December 31, 2006, the commission's annual pension cost of \$45,570 for the plan approximated the commission's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.75% and (b) projected salary increases of 4.5% to 10.8% per year compounded annually, attributable to inflation. The actuarial value of the plan assets was determined on the basis of a market value method with five years smoothing.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 5--Defined Benefit Pension Plan (continued)

Annual Pension Cost (continued)

The amortization method is level percent of payroll, closed period.

Three-Year Trend Information

Fiscal Year <u>Ending</u>	Annual Pension Cost (APC)	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
12-31-03	\$ 192,645	103.10%	\$ -
12-31-04	233,231	101.40%	-
12-31-05	45,570	88.90%	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrued Liability Entry Age {b}	Unfunded AAL (UAAL) {b-a}	Funded Ratio {a/b}	Covered Payroll {c}	UAAL as a % of Covered Payroll {b-a}/{c}
12-31-03	\$ 16,321,860	\$ 14,385,904	\$ (1,935,956)	113.5%	\$ 2,887,703	-67.0%
12-31-04	17,756,629	13,864,504	(3,892,125)	128.1%	2,963,219	-131.3%
12-31-05	18,705,616	14,226,638	(4,478,978)	131.5%	3,082,788	-145.3%

NOTE 6--Post Employment Benefits

In addition to the pension benefits described above, the Road Commission also provides post employment health benefits to all retirees who are eligible for pension benefits. Coverage is required for union retirees based on the contract and at the discretion of management for non-union retirees. The Road Commission bears the cost of the health insurance premium for the eligible retiree; the retiree is responsible for the cost of the health insurance premium for any added spouse or dependent. Expenditures for post employment health care premiums are recognized as premiums are paid. For the year ended December 31, 2006, there were 47 retiree contracts who received this benefit and the cost of providing retiree health care insurance premiums was \$278,078.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 7--Risk Management

The commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During 2006, the commission participated in the Michigan County Road Commission Self Insurance Pool (SIP), a public entity risk pool currently operating as a common risk management program for road commissions in the State of Michigan. The commission pays an annual premium to SIP for its general insurance coverage. The SIP is self-sustaining through member premiums.

Also during 2006, the commission participated in the County Road Association Self Insurance Fund (SIF) for its workers compensation benefits. The SIF is also a common risk management program for road commissions in the State of Michigan and is self-sustaining through member premiums.

In the event of unusually high claims, both the SIP and the SIF have the authority to bill the member road commissions retroactively. The commission continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.



REQUIRED SUPPLEMENTAL INFORMATION

KALAMAZOO COUNTY ROAD COMMISSION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL OPERATIONS FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Final Budget	Actual	Actual Vs. Final Budget Favorable (Unfavorable)
Revenue				
Michigan Transportation Fund	\$ 13,100,000	\$ 13,100,000	\$ 13,106,447	\$ 6,447
Economic Development Fund	-	(13,799)	(13,800)	(1)
Township and City contributions	900,000	1,050,000	1,147,858	97,858
Federal	1,534,860	1,644,860	2,035,393	390,533
Critical Bridge	750,000	880,000	607,985	(272,015)
Cities	85,000	295,000	338,069	43,069
Interest	100,000	160,000	178,116	18,116
Other	750,000	750,000	546,296	(203,704)
Total Revenue	<u>17,219,860</u>	<u>17,866,061</u>	<u>17,946,364</u>	<u>80,303</u>
Expenditures				
Preservation and maintenance	17,206,934	17,306,934	17,102,465	204,469
Administration	1,131,775	1,031,775	958,168	73,607
Capital Outlay	1,237,500	1,237,500	1,065,911	171,589
Equipment	(207,050)	(7,050)	(14,481)	7,431
Depreciation	(675,000)	(725,000)	(763,498)	38,498
Total Expenditures	<u>18,694,159</u>	<u>18,844,159</u>	<u>18,348,565</u>	<u>495,594</u>
Excess of Revenues Over (Under) Expenditures	(1,474,299)	(978,098)	(402,201)	575,897
Fund Balance, Beginning of Year	5,565,339	5,565,339	5,565,339	-
Fund Balance, End of Year	<u>\$ 4,091,040</u>	<u>\$ 4,587,241</u>	<u>\$ 5,163,138</u>	<u>\$ 575,897</u>

ADDITIONAL SUPPLEMENTAL INFORMATION

KALAMAZOO COUNTY ROAD COMMISSION  
ANALYSIS OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - - SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006

	Primary Roads	Local Roads	County Road Funds	Total
<b>Revenues</b>				
Transportation Fund				
Engineering	\$ 7,563	\$ 2,437	\$ -	\$ 10,000
Snow removal	3,203	-	-	3,203
Urban road	1,913,855	547,434	-	2,461,289
Allocation	8,040,456	2,591,499	-	10,631,955
Total Transportation Fund	<u>9,965,077</u>	<u>3,141,370</u>	<u>-</u>	<u>13,106,447</u>
Economic Development Fund	(13,800)	-	-	(13,800)
Federal	1,674,918	360,475	-	2,035,393
Critical Bridge	540,396	67,589	-	607,985
Township & City contributions	338,732	1,147,195	-	1,485,927
Other contributions and charges for services	31,589	142,588	8,421	182,598
Total County	<u>12,536,912</u>	<u>4,859,217</u>	<u>8,421</u>	<u>17,404,550</u>
Other				
Gain on disposal	-	-	311,310	311,310
Special assessments	-	52,388	-	52,388
Interest earned	113,661	4,823	59,632	178,116
Total Other	<u>113,661</u>	<u>57,211</u>	<u>370,942</u>	<u>541,814</u>
Total Revenues	<u>12,650,573</u>	<u>4,916,428</u>	<u>379,363</u>	<u>17,946,364</u>
<b>Expenditures</b>				
Preservation - structural improvements	5,515,646	2,533,695	-	8,049,341
Maintenance	4,953,234	4,099,890	-	9,053,124
Total Preservation and Maintenance	<u>10,468,880</u>	<u>6,633,585</u>	<u>-</u>	<u>17,102,465</u>
Other				
Administrative expense	586,520	371,648	-	958,168
Net equipment expense	28,826	32,514	1,175	62,515
Net capital outlay	-	-	213,793	213,793
Interest	-	-	11,624	11,624
Total Other	<u>615,346</u>	<u>404,162</u>	<u>226,592</u>	<u>1,246,100</u>
Total Expenditures	<u>11,084,226</u>	<u>7,037,747</u>	<u>226,592</u>	<u>18,348,565</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>1,566,347</u>	<u>(2,121,319)</u>	<u>152,771</u>	<u>(402,201)</u>
Other Financing Sources (Uses)				
Optional transfers	(2,121,319)	2,121,319	-	-
Payments on land contracts	-	-	-	-
Total Other Financing Sources (Uses)	<u>(2,121,319)</u>	<u>2,121,319</u>	<u>-</u>	<u>-</u>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>	<u>(554,972)</u>	<u>-</u>	<u>152,771</u>	<u>(402,201)</u>
Fund Balances, Beginning	3,690,635	-	1,874,704	5,565,339
<b>Fund Balances, Ending</b>	<u><u>\$ 3,135,663</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,027,475</u></u>	<u><u>\$ 5,163,138</u></u>

KALAMAZOO COUNTY ROAD COMMISSION  
SCHEDULE OF FEDERAL FINANCIAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006

	Federal CFDA Number	Passed Through Grantor ID	Cash Accrued or (Deferred) Revenue January 1, 2006	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash Accrued or (Deferred) Revenue December 31, 2006
U.S. Department of Transportation Highway Research, Planning and Construction Passed through State of Michigan Department of Transportation	20.205					
South Sprinkle Road - V Ave to S Ave		77346A	\$ -	\$ 77,878	\$ 77,878	\$ -
South Sprinkle Road - at Comstock/Lake		78236A	-	61,435	61,435	-
South Sprinkle Road - 6 intersections		83004A	-	366,860	366,860	-
Mosel Ave - bridge over Kalamazoo River		80685A	-	260,283	260,283	-
South Sprinkle Road - at Romence/Bishop		80593A	-	200,000	200,000	-
26th Street - E Main to H Ave		76305A	-	188,983	188,983	-
6th Street - W Main to H Ave		76301A	-	519,478	519,478	-
V Ave - bridge over Little Portage Creek		83880A	-	360,476	360,476	-
Total Federal Assistance			<u>\$ -</u>	<u>\$ 2,035,393</u>	<u>\$ 2,035,393</u>	<u>\$ -</u>

Note: Federal financial awards received under the highway planning and construction program in the amount of \$2,035,393 are administered by the State of Michigan. The Road Commission has no responsibilities regarding fiscal or compliance controls over such assistance.



# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacomo Provenzano  
James R. Schauman  
Heather A. Thomas

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

March 9, 2007

Members of the Board  
of County Road Commissioners  
of Kalamazoo County  
Kalamazoo, Michigan

We have audited the financial statements of Kalamazoo County Road Commission, a component unit of Kalamazoo County, as of and for the year ended December 31, 2006, and have issued our report thereon dated March 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kalamazoo County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, caused by error or fraud, in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Members of the Board  
of County Road Commissioners  
of Kalamazoo County  
Page Two  
March 9, 2007

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kalamazoo County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and the Board of County Road Commissioners. However, this report is a matter of public record and its distribution is not limited.

*Sardna, Protopopos, Schaeffer & Thomas*  
Certified Public Accountants